BRITISH INTERESTS IN MEXICO, 1900-1926

BY

MABEL GOFF COOLSEN

A.B., Knox College, 1931
A.M., University of Illinois, 1932

AN ABSTRACT OF A THESIS

SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF DOCTOR OF PHILOSOPHY IN HISTORY IN THE GRADUATE SCHOOL OF THE UNIVERSITY OF ILLINOIS, 1943.

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BRITISH INTERESTS IN MEXICO, 1900-1926

The phenomena of large British capital subscriptions in Mexico during the first decade of the twentieth century was not an isolated instance of British investment in a foreign country. It was merely an aspect of the tendency evidenced by England as a fully-developed capitalistic country to send savings abroad in the hope of receiving higher profits than could possibly be obtained through investment in home industry. The natural place for these savings to go was to undeveloped regions such as Mexico, where unexploited resources seemed to provide the opportunity for returns to capital far surpassing normal profits in the country of origin.

At the turn of the twentieth century, Porfirio Diaz had been in charge of Mexican affairs for over twenty years and, under his leadership, Mexico had become comparatively safe for foreign investment. American, British, and European citizens had begun to invest in railway, mining and various miscellaneous activities in the Republic. British subscriptions abroad, however, were retarded by the Boer War and it was not until 1904 that British pounds began to reappear in foreign countries, including Mexico. From 1904 to 1911, British capital continued to support the familiar Mexican investments by building and improving railroads, buying more national bonds and mining stock, and starting new mining companies. Different activities also began to engage the attention of the British subject. After 1904, British capital in Mexico inaugurated public utility and tramway companies, petroleum concerns, rubber companies and a number of commercial and industrial undertakings.

There is little doubt that the expectation of high returns on investment was the basic reason for the transfer of capital from England to Mexico during the years from 1900 to 1911. British investors were encouraged in their belief that they could reap large profits in Mexico by the example

of the "fabulously" wealthy Weetman Pearson (Lord Cowdray). The unsophisticated British investor reasoned that if Pearson could make a fortune in Mexico that he too could obtain substantial profits on even a small investment. President Diaz of Mexico and his Minister of Finance, Limantour, encouraged British investors by offering inducements in the form of concessions, subsidies, and tax-exemptions to those who would initiate Mexican enterprises. There is no doubt that British capital was welcome in Mexico before the days of the Revolution of 1911. It was needed not only to develop the resources of the country, but also to counteract the influence of United States business interests, which might otherwise have obtained a monopoly in the field of foreign investment

Hoping for high returns on their investments and encouraged by the example of Weetman Pearson and by the inducements offered by the Mexican government, British subjects, before 1911, poured over £90,000,000 into Mexican enterprises. This money went to capitalize railroads, mines, public utilities, tramways, and various miscellaneous activities in Mexico. Some of it was invested in national and municipal bonds and a small amount, before 1911, provided the basis for a substantial investment, after 1911, in the Mexican petroleum industry.

Between 1911 and 1926, over £29,000,000 went into petroleum concerns in Mexico. This included capitalization of oil concerns and of distributing and transport companies. Until 1914, in spite of chaotic conditions in Mexico, there were further British subscriptions to the railroads, to the public debt, and to public utility and tramway companies. Because of the revolutionary situation in Mexico and because of the World War and the problems that faced England in the post-war period, the only British money that went to Mexico between 1914 and 1926 was used to increase the capitalization of the Mexican Eagle Oil Company and to inaugurate a few new petroleum companies. There was no British investment after 1914 in Mexico's railways, in her public debt, or in her

public utility and tramway companies. British investment in the mining, commercial, financial, industrial, land and rubber companies was not so large at the end of 1925 as it was in 1911. Through reorganization and liquidation, British subjects lost outright approximately £6,026,469 of the £16,-035,896 that had been invested in these companies.

The table which follows shows approximately the amount of capital British subjects had invested in Mexico by the year 1900, the year 1911 and the year 1925. The material for this compilation is derived from the study of British stock exchange information and from estimates based thereon of the approximate amount of British subscription to the various Mexican enterprises. It is, of course, not entirely accurate. Because Mexican stocks were issued in London does not necessarily mean that they were sold there. Blocks of them may have been unloaded in Argentina or on the Continent. These, however, were probably offset by British subscription to stocks and bonds issued in the United States and elsewhere. The figures given below represent a conservative estimate of British investment in Mexico.

Type of Investment	1900	1911	1925
Railroads	£ 21,847,145	£ 41,146,349	£ 47,137,642
Oil Companies		3,704,054	19,999,277
Oil Distributing and Transport Companies			12,999,201
Public Debt	8,747,213	13,815,335	15,965,335
Public Utilities and Tramways		9,909,699	10,,483,033
Mines	6,403,344	8,746,833	8,467,136
Commercial, Financial and Industrial Companies	7,758,532	10,649,842	8,834,511
Land Companies	3,484,054	3,704,054	1,179,632
Rubber Concerns		1,682,000	294,982
Banks	1,294,472	1,593,472	1,593,472
	£ 49,534,760	£ 94,951,638	£126,854,221

The writer has regretted that a complete file of various company reports and accounts was not available for use in making a financial analysis of these British investments in Mexico from 1900 to 1926. Such reports, however, were issued only to the company stockholders and were not publish-

ed for general use. The libraries have the annual reports of the government controlled National Railways Company of Mexico from the time of its registration in 1909. There are also available the reports for several of the years between 1900 and 1926 of the British owned Mexican Railway, the Interoceanic Railroad, the Mexico North Western Railway and the Mexican Light and Power Company.

Lacking the first hand information contained in the annual reports and accounts of the British companies located in Mexico, extensive use has been made of investment manuals and year books. British publications such as the *Stock Exchange Year Book*, the *Stock Exchange Official Intelligence*, and the *Mining Manual and Year Book* not only quote the company reports but analyze and evaluate them. The Mexican Department of Finance, between 1908 and 1914, published the *Mexican Year Book*, which contains a wealth of material as to British investment. Manuals published in the United States such as Poor's and Moody's have information about the concerns in which both American and British money was invested. The British financial and investment journals, the *Economist* and the *Statist*, are important sources of information for the period covered.

Mexican government publications, especially those published by the Department of Finance between 1900 and 1914, contain authoritative material concerning the public debt of Mexico. British government documents such as the *Daily Consular Reports* and the House of Commons *Parliamentary Debates* supply valuable information as to British investments in Mexico and the attitude of the government toward these investments. The United States Senate in 1919 conducted an investigation of Mexican affairs in which testimony regarding British investments was given.

Mexican writers have been quite adept at expressing their opinions concerning foreign investments in their country. British writers have been more reticent, but writers from the United States have written many books giving their views as to investment in Mexico. One of the most valuable books used

in this study of British interests in Mexico was a biography of Weetman Pearson (Lord Cowdray), written quite objectively by his friend, J. A. Spender.

From a study of the various source and secondary material concerning British interests in Mexico, it has been possible to arrive at the conclusion that, in general, these interests were the reverse of profitable. It is doubtful if 25 per cent of the British capital that was invested in Mexico ever has been or could be salvaged. Only the money subscribed to the Mexican Eagle Oil Company brought unusually high returns during the period from 1911 to 1926. The time was even then not far distant when British investors would lose their entire capital in this company through its expropriation in 1938. Mexican railways, which consumed the largest single amount of British capital, returned few dividends to their shareholders between 1900 and 1926. Bondholders fared well in the period between 1900 and 1911 but the 5 and 6 per cent interest rates on these bonds were not appreciably higher than were interest rates in England itself. After 1911, the bonds of the Mexican railways were almost as unremunerative as were the shares. British bondholders received an annual average return on their investment of less than 1 per cent.

The national bonds of the Mexican government were secure investments before 1914. Limantour's financial ability however, made it possible for Mexico to borrow at 4 and 5 per cent interest rates which meant that British investors received for from phenomenal returns. Mexico went into default on her national obligations in 1914 and since then has paid little or nothing on principal or interest. British subjects who loaned their money to the Mexican government would have difficulty today in liquidating their investment for more than a few pence on the pound. The debt of the National Railways Company, which was guaranteed by the Mexican government, has had the same record of default. No interest payments on this debt have been made since 1914.

The British shareholders in Mexican mining concerns received few dividends between 1900 and 1926. Investment in

the El Oro mining district was profitable but only a small percent of total British mining subscriptions to Mexico went to this district. The share capital of the tramways and public utilities companies has been almost completely unproductive from the time of the organization of these companies (between 1904 and 1911) through to the present time. Interest on the bonds of these companies was paid irregularly after 1914. Most of the shares of the land, rubber, financial, commercial, and industrial concerns were without dividends between 1900 and 1926. Little or no interest was paid on the bonds of these companies after 1914. The share capital of the Mexican banks was productive until 1914, but, after that, it too participated in the general dearth of dividend declarations.

It should not be thought, however, that all British subjects lost money through investment in Mexican enterprises. Promoters and bankers usually bought issues of shares and bonds below par and re-sold them at a profit, often realizing 7 or 8 percent on these transactions. Weetman Pearson's career in Mexico was one which illustrates successful British enterprise. His contracts with the Mexican government resulted in profits for his firm (S. Pearson and Son, Contractors) and in improved harbours and drainage facilities for Mexico. Pearson's investments were made only after he had carefully appraised the Mexican situation and the result was that all of these investments turned out well during the period that he was connected with them. He owned a large number of shares in the Mexico Mines or El Oro, the most profitable mining company in Mexico, and in the Santa Gertrudis Jute Mill Company, the only British industrial concern in Mexico that ever declared dividends.

Pearson was fortunate in that he was especially favored by the Diaz régime, but he showed real ability in being able to salvage his investments during the revolutionary period. His partnership with the Mexican government in the operation and management of the Tehuantepec Railway was severed in 1917, before competition with the Panama Canal made this railroad an unprofitable concern. He sold his shares in the

public utility and tramway companies of Vera Cruz and Puebla before they became unremunerative.

After making annual returns averaging over 16 per cent on his ordinary shares in the Mexican Eagle Oil Company, Weetman Pearson (then Lord Cowdray) relinquished the management of this company in 1919. Sale of 2,500,000 shares which had a par value of £1 per share, netted him the sum of £12,500,000. The sale of these shares and Pearson's retirement from active participation in the management of the company came just before salt water seeped into the oil fields causing a decline in productivity and before the Mexican government evidenced active enmity to foreign-owned petroleum companies. Pearson's successful career in Mexico was based upon a combination of ability, good judgment, and extraordinary luck. His investments were not haphazard ones but were made on the basis of a thorough knowledge of conditions in Mexico.

Of the many explanations that may be offered for the failure of most British investments in Mexico, one of the most important is that the average British investor did not use Weetman Pearson's technique. Subscriptions were usually made on the basis of only hearsay knowledge and no conception of the Mexican situation. The enterprises in Mexico in which British money was invested were often poorly planned and poorly managed. British pounds were used to build the Mexican Railway from Vera Cruz to the City of Mexico and the duplication of the service of this line by the construction of the parallel Interoceanic line verged on the ridiculous. To suppose that tramway and public utility companies could be successful in a country that did not have a population likely to support such concerns showed little judgment and probably meant that the investor was unaware of the character of the Mexican population. It was sheer ignorance on the part of the British investor to buy desert land in Lower California or to invest in companies designed to foster rapid industrialization of Mexico. Mining investments were probably no more specutive in Mexico than they were elsewhere in the world, but,

judging from the sparse returns on the total amount of these investments, the average British subject who puts his money into Mexican mining companies showed little business acumen.

The Mexican Revolution affected adversely all British investments in Mexico. Nothing is farther from the truth, however, than to say that had the Diaz dictatorship continued foreign investment would have been safe and profitable. No amount of government control or encouragement could have produced dividends on the share capital invested in the Mexican land, mining, and rubber concerns. It is doubtful if even the iron hand of Diaz could have forced the Mexicans to ride on British tramways or to electrify their homes. An advanced state of industrialization could not have been attained in Mexico for many years and, during the period of transition, it seems unlikely that foreign investors would have profited by their sponsorship of Mexican industry. Of all the British investments in Mexico it seems most probable that the railways might have succeeded had it not been for the ill effects of the Revolution. They were beginning to yield satisfactory returns when disorderly conditions in Mexico disrupted the rosy future envisioned by their shareholders. Yet Mexico has been fairly peaceful since 1920, and the returns on railway investment have been conspicuous only by their absence.

It is certain, however, that the attitude and actions of the Mexican government assisted in the failure of many British investments in Mexico. Certainly this is ample explanation for the unremunerative character of investment in the national debt of Mexico and in the bonds of the National Railways Company. It explains the eventual expropriation of land owned by petroleum and by colonization companies and the loss of the original capital invested in these concerns.

The British government, in the period from 1911 to 1926, unsuccessfully attempted to protect British investments in Mexico. In sponsoring Huerta's presidency, the British Foreign Office showed that it was inclined to worship law and order and that it would approve of any government,

regardless of its origin which evidenced the capacity to maintain peaceful conditions. The British were not concerned with ethical considerations and wanted merely the political stability necessary to safeguard British residents and property in Mexico. The policy of the United States in 1913, however, seemed to sacrifice expediency for idealism and the British government, in order to maintain political friendship with the United States, became its reluctant partner in bringing about the Mexican general's downfall.

From 1915 until 1920, the British Foreign Office showed little interest in Mexico or in the Carranza government. It was willing passively to follow the policy of the United States, but there was never any enthusiasm for the Carranza administration. General absorption in the European War and the problems of its aftermath prevented the British government from adopting a definite attitude toward Carranza.

With the election of General Obregon to the presidency of Mexico in 1920, the British government again became active in its attempt to protect British interests in Mexico. This time the emphasis was not upon an orderly government but rather upon an effort to obtain from Mexico definite assurances that revolutionary losses to British property would be rectified. British recognition of Obregon's presidency was refused until such assurances could be given. Diplomatic clashes between the two governments were frequent and heated between 1922 and 1925. The result was that the government of Great Britain never acknowledged Obregon's legal right to be president of Mexico. Recognition of Mexico did not come until 1925, when Calles was the Mexican president. It cannot be said, however, that the British government, by its delay in recognizing Mexico, succeeded in protecting British interests there.

The purpose of this study has not been to praise or to condemn the Mexican government since 1917 for its enmity to foreign investors. Neither has the purpose been to uphold or to criticize the attitude of British investors or of the British government toward Mexico. Too much has probably already been written in an attempt to prove either that the foreign

investor or that the Mexican government has been at fault. It was natural that the Mexicans should be impressed by and envious of the high salaries paid to engineers and to managers of the foreign controlled companies in their country, and that they should imagine that the shareholders of these companies were making large profits. It was understandable that they should desire to have the resources of their country under the control of their own government. It was also understandable that British investors should resent the unremunerative character of their investments, the confiscation of property acquired with the blessing of former administrations, and the virtual repudiation by the Mexican government of its obligations. These considerations, however, do not come within the scope of this study. The writer has attempted primarily to trace the financial history of British investments in Mexico between 1900 and 1926.

If British capital is ever again sent to Mexico, certain changes in the "character" of investment should be made. In the first place, such capital should not be tendered in the hope of obtaining exceptionally high profits but merely in anticipation of reasonable returns. An intelligent analysis of Mexico's economic needs should be made by the British investor. This implies a thorough understanding of the fact that Mexico is still today much behind Great Britain and the United States in economic and social development and does not, therefore, need expansion of investment in the same fields as is proper in more advanced nations. Foreign investments in Mexico will require the complete cooperation of the Mexican government and the Mexican people with foreign governments and their investors. Only such a program of mutual understanding and cooperation can result in satisfaction for both parties and avoid the unsatisfactory nature of British subscriptions to Mexico between 1900 and 1926.

VITA

Mabel Goff Coolsen, the daughter of Henry Fitch and Musette Forsee Goff, was born in Galesburg, Illinois on April 6, 1910. She attended the public schools of Galesburg and was graduated from the Galesburg High School in June, 1927. She received her A.B. degree from Knox College in 1931 and her M.A. degree in history from the University of Illinois in June, 1932. She spent the second semester of 1933-34, of 1942-43, and the summers of 1937-42 on the campus of the University of Illinois. During 1932-33, she taught at the Junior College for Girls at Decorah, Iowa and from 1934-36 at the Reddick Junior College, Reddick, Illinois. From 1936 until February, 1943, she was employed as a social science teacher at Churchhill Junior High school, Galesburg, Illinois. She is a member of Alpha Xi Delta sorority, of Delta Sigma Rho, forensic fraternity, and of Delta Kappa Gamma, national society of women teachers.